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C O N F I D E N T I A L SECTION 01 OF 02 VIENTIANE 000390

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E.O. 12958: DECL: 05/09/2017

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SUBJECT: AES LOSES BID FOR MEKONG HYDROPOWER PROJECT IN  
XAYABURY

REF: A. VIENTIANE 351

[1](#)B. VIENTIANE 312

Classified By: Ambassador Patricia M. Haslach for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: CH Karnchang Public Company of Thailand (CK) was awarded the right to conduct a feasibility study to develop a 1260 megawatt (MW) run of the river hydropower plant in Xayabury by the Government of Laos (GOL). According to an article in the Vientiane Times May 8, the GOL and CK signed a Memorandum of Understanding May 4 granting CK 30 months to prepare a survey of the project, the first major hydropower project on the Lao section of the Mekong. Active USG lobbying for American power producer AES, including personal appeals from the Ambassador and a letter from the Secretary of Commerce (Ref A), were ultimately unsuccessful. While there are some rumors of possible corruption in the process that ended with the choice of CK, we note that AES also could have done more and had some weaknesses in their strategy. During a meeting May 10 with the Ambassador, Vice Foreign Minister Phongsavath Boupha raised the issue of Laos not qualifying for Eximbank guarantees. The Ambassador countered by expressing disappointment that AES, which could have asked for Eximbank guarantees, was not awarded the contract to the Xayabury project. End Summary.

[1](#)2. (U) An article in the Vientiane Times May 8 described a signing ceremony held May 4 to award CK of Thailand the right to prepare a survey of the Xayabury hydropower site on the Mekong. Assuming it is similar to what AES was seeking, the Memorandum of Understanding signed between CK and the GOL in essence gives CK the right to develop the site after it has carried out feasibility studies. Despite the projected size and scope of the project, the article never actually stated that the project was to be on the Mekong itself, a curious omission. It might have been deliberate to avoid drawing environmental NGO attention to the project at this early date. According to the World Bank, this project will face even stricter attention from NGO groups because it will be the first on the Mekong proper and because Nam Ngum II has been declared an environmental disaster. And notwithstanding intensive lobbying by the U.S. Government on behalf of AES,

there was no notification to either the Embassy, nor to AES, that the contract had been awarded to another company, or that a signing ceremony was to be held just four days after the Ambassador had called on the President for the Committee for Planning and Investment of Laos to lobby for AES (Ref A).

The Xayabury project site is estimated at 1260 MW--larger than the well-publicized World Bank funded Nam Theun II dam--and was hotly contested by three companies including AES and another Thai company MBK. (Ref A and B).

13. (C) In a meeting with the Ambassador April 27, AES representatives had mentioned they feared under-the-table connections might be undermining AES's bid. CK has previously built, poorly, the Nam Ngum II dam, and connections made during that endeavor would have been likely conduits for corruption. While it is entirely possible that some payments were made irregularly to help CK win the contract, we have no proof of that and AES's bid and lobbying were not ideal.

14. (C) From the Embassy point of view AES made a number of strategic mistakes.

1A. AES did not include an energy marketing plan within its bid proposal; nor did it begin to develop a relationship with Thai electrical authority EGAT, the most likely purchaser of the majority of electricity from the project.

1B. Nor did AES include a marketing plan for Vietnam in its proposal, despite AES having a \$1.5 billion energy investment in Quana Ninh province.

1C. AES representatives did not speak with either the local head of the World Bank (or the regional representative in Bangkok) or the local head of the Asian Development Bank (ADB). Either would have pointed out the critical need for an energy marketing plan and might have offered information

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based on their direct experience with Nam Theun II to help strengthen the bid.

1D. They attempted to lobby people such as Deputy PM Lengsavad, a powerful member of the government (and former Foreign Minister) known for his dislike of the United States, whose attention to the situation could well have been counterproductive.

1E. AES did not place a full-time staff member in Laos to build a broader range of relationships than can be achieved with visiting representatives. (Note: There is no guarantee the outcome of the process would have been different if AES had taken these steps. CK has experience in Laos and a broad range of contacts (even without under-the-table connections).

We will seek opportunities to reinforce the importance of these points with any future U.S. bidders. End Note).

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Eximbank  
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15. (C) On May 10 the Ambassador paid a farewell call on Vice Foreign Minister (VFM) Phongsavath Boupha. VFM Boupha urged the USG to grant Eximbank the right to operate in Laos and requested the Ambassador carry that message with her back to Washington. After stating her disappointment that AES was not awarded the Xayabury project, the Ambassador pointed out that AES was just the type of American company likely to request Eximbank guarantees.

16. (C) In a telephone conversation with econoff May 10, AES representatives indicated that while they were disappointed with the outcome, they intended to continue looking for investments in Laos and would be returning shortly to approach the GOL for feedback on what went wrong and what they could improve. Econoff shared a number of suggestions based on the checklist above, and they were receptive. When told that CK might not have the capability to complete the project, and might be looking for either a partner or to sell, the AES representatives were non-committal. (Comment:

It is our impression that AES prefers to operate  
independently in Laos. End Comment)  
HASLACH